

ORDINANCE NO. 633

AN ORDINANCE of the City Council of the City of Gig Harbor, Washington authorizing the issuance and sale of subordinate lien water and sewer revenue bond anticipation notes for the purpose of interim financing the improvements within utility local improvement district no. 3 of the city in the aggregate principal amount of \$1,800,000; providing the form, terms and maturity of said notes; creating a special fund for the payment of said notes; and accepting the offer of Dain Bosworth Incorporated to purchase said notes.

WHEREAS, the City of Gig Harbor, Washington (the "City") now operates and maintains a combined system of water and sewerage (the "System"), and

WHEREAS, the City formed Utility Local Improvement District No. 3 on January 27, 1992, by the passage of Ordinance No. 617 for the purpose of undertaking an extension of the System to certain areas outside the boundaries of the City; and

WHEREAS, pursuant to RCW Ch. 35.92, the City is authorized to issue water and sewer revenue bonds to provide financing for such improvements; and

WHEREAS, pursuant to RCW Ch. 39.50, the City is authorized to issue short term obligations in anticipation of the issuance of such revenue bonds; and

WHEREAS, in order to provide interim financing for the costs of such improvements, it is found to be in the best interest of the City and its residents to issue and sell its water and sewer

revenue bond anticipation notes in the principal amount of \$1,800,000; and

WHEREAS, the City has received an offer from Dain Bosworth Incorporated to purchase said notes under the terms and conditions set forth in this ordinance;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF GIG HARBOR, WASHINGTON DO ORDAIN, as follows:

Section 1. Definitions. As used in this ordinance the following words shall have the following meanings:

"Act" means Chapter 39.50 RCW.

"Annual Debt Service" means, with respect to any issue of Parity Bonds, the amount required in a given calendar year for the payment of the principal of and interest on such Parity Bonds.

"Assessments" means any assessments levied in any utility local improvement district of the City (including ULID No. 3) created for the acquisition or construction of additions and improvements to and extensions of the System, if such assessments are pledged to be paid into the Bond Fund. The word "Assessments" shall also include any installments of assessments and any interest or penalties which may be due thereon.

"Assessment Income" means the principal of and interest on assessments levied in any utility local improvement district and pledged to be paid into the Bond Fund. In the case of assessments payable in installments, Assessment Income shall be allocated to the years in which it would be received if the unpaid principal

balance of each assessment roll were paid in equal principal amounts over the remaining number of installments with interest on the declining balance at the times and at the rate provided in the ordinance confirming the assessment roll.

"Average Annual Debt Service" means the average amount of annual debt service which will become due in any fiscal year hereafter on all Parity Bonds then outstanding.

"Bond Fund" means the City of Gig Harbor Utility Bond Redemption Fund created in the office of the City Treasurer by Section 13 of Ordinance No. 468.

"Bonds" means the Subordinate Lien Water and Sewer Revenue Bonds authorized to be issued by Section 3 of this ordinance.

"City" means the City of Gig Harbor, Washington, a municipal corporation duly organized and existing under the laws of the State of Washington.

"Code" means the Internal Revenue Code of 1986, as amended, and shall include all applicable regulations thereunder.

"Costs of Maintenance and Operation" mean all necessary operating expenses, current maintenance expenses, expenses of reasonable upkeep and repairs, and insurance and administrative expenses with respect to the System, but excludes depreciation, payments for debt service or into reserve accounts, costs of capital additions to or replacements of the System, municipal taxes, or payments to the City in lieu of taxes.

"Council" means the City Council as the general legislative authority of the City as the same shall be duly constituted from time to time.

"Debt Service Account" means the account of that name created in the Bond Fund by Ordinance No. 468.

"DTC" means The Depository Trust Company, New York, New York, a limited purpose trust company organized under the laws of the State of New York, as depository for the Notes.

"Future Parity Bonds" means any water and sewer revenue bonds which the City may hereafter issue having a lien upon the Revenue of the System for the payment of the principal thereof and interest thereon equal to the lien upon the Revenue of the System of the Bonds.

"Letter of Representations" means the letter of representations from the Note Registrar and the City to DTC, in substantially the form of Exhibit A attached hereto and made a part hereof by this reference.

"Net Revenue" means the Revenue of the System less the Costs of Maintenance and Operation.

"Note Fund" means the special fund of the City designated as the Water and Sewer Revenue Bond Anticipation Note Fund, 1992 created by Section 7 hereof.

"Note Register" means the records maintained on behalf of the City containing the name and mailing address of each owner of the

Notes or the nominee of such owner, and such other information as the Note Registrar shall determine.

"Note Registrar" means the fiscal agencies of the State of Washington in either Seattle, Washington, or New York, New York, for the purpose of registering and authenticating the Notes, maintaining the Note Register, effecting transfer of ownership of the Notes and paying interest on and principal of the Notes.

"Notes" means the City of Gig Harbor, Washington, Subordinate Lien Water and Sewer Revenue Bond Anticipation Notes, 1992, the sale and issuance of which are authorized herein.

"Outstanding Parity Bonds" means the following designated water and sewer revenue bonds of the City:

<u>Resolution Number</u>	<u>Date of Issue</u>	<u>Original Principal Amt.</u>	<u>Currently Outstanding (8/1/92)</u>	<u>Final Maturity Dates</u>
468	December 15, 1985	\$ 740,000	\$ 460,000	December 1, 2000
553	May 1, 1989	2,040,000	1,830,000	June 1, 2005

The Outstanding Parity Bonds are the only bonds of the City outstanding at this time for the payment of the principal of and interest on which the earnings and revenues of the System have been pledged.

"Parity Bonds" means the Outstanding Parity Bonds and any Future Parity Bonds.

"Project" means the additions, betterments and improvements to be undertaken within ULID No. 3 specified in Ordinance No. 617.

"Reserve Account" means the account created in the Bond Fund by Section 15 of Ordinance No. 468 and shall include any subaccount created therein.

"Revenue Fund" means the "City of Gig Harbor Utility Revenue Fund" created by Section 12 of Ordinance No. 468, into which fund all of the Revenue of the System is to be deposited, as collected.

"Revenue of the System" means all earnings, revenue and moneys received by the City from or on account of the operation of the System, including the income from investments of money in the Revenue Fund and the Bond Fund or from any other investment thereof. "Revenue of the System" shall also include any federal or state reimbursements of operating expenses to the extent such expenses are included as "Costs of Maintenance and Operation."

"System" means the existing sanitary sewerage collection and treatment system of the City, as it now exists and as it may later be added to, extended and improved, and the existing water supply and distribution system of the City, as it now exists and as it may later be added to, extended and improved for as long as any Parity Bonds remain outstanding.

"Term Bonds" means any Parity Bonds identified as such in the ordinance authorizing the issuance thereof, the payment of which is provided for by a requirement for mandatory deposits of money into a "sinking fund account" in the Bond Fund.

"Treasurer" means the City Administrator acting in his capacity as Clerk and Treasurer of the City.

"ULID No. 3" means Utility Local Improvement District No. 3 of the City, created pursuant to Ordinance No. 617 of the City Council.

Section 2. Authorization of Project. Pursuant to Ordinance No. 617, the City has heretofore authorized and approved the construction of the improvements within ULID No. 3. The proceeds of the Notes herein authorized shall be used to provide for the interim financing of the costs of said improvements (the "Project"). Upon the completion of the Project within ULID No. 3, an assessment roll shall be confirmed for all of the costs of said improvements and Assessments levied against the property owners within ULID No. 3 benefited by said Project. All of said Assessments to be levied within ULID No. 3 shall be deposited upon receipt into a bond fund to be created for the sole purpose of paying the principal of and interest on such bonds.

The Project shall include all necessary equipment, appurtenances and facilities.

The City shall acquire all materials, equipment, real and personal property or interests therein, easements, franchises and rights-of-way necessary to construct the Project, which shall be as more particularly set forth in maps, plans and specifications prepared by the City's engineers and which shall be on file with the City, and such plans shall be subject to such additions or changes as to detail or other changes not affecting the main general plan for the Project as may be authorized by the City Council

either prior to or during the actual course of construction. The estimated cost of acquiring, constructing and installing the Project is hereby declared to be, as near as may be estimated, the sum of \$1,800,000 of which \$1,800,000 shall be paid out of the proceeds of sale of the Notes.

The Project shall be subject to such changes as to details of pipe, size and location or in any other details of said plan not affecting the service to be provided by the main general plan as shall be authorized by the Council either prior to or during the actual course of construction. The Project shall be constructed and installed at such time or times as may be found to be necessary, advisable and economically feasible by the City Council and such Council shall take all actions and do all things as may be necessary and proper in carrying out the Project. The City shall acquire by purchase or condemnation all property, both real and personal, rights-of-way, franchises, easements and water rights necessary to carry out said plan, which is as more particularly set forth in maps and plans prepared by Sitts & Hill Engineers, Inc., Washington, consulting engineers for the City.

The Council shall have the right to cooperate, coordinate, enter into, contract and do all things that are necessary and proper with sewer districts, other cities, towns, port authorities and all other governmental and non-governmental units to the end that the System and the people of the City are benefited.

The cost of the Project is found to be, as near as may be estimated, \$1,800,000, all of which shall be provided from the proceeds of the Notes hereinafter authorized.

Section 3. Authorization of Bonds. For the purpose of providing the funds necessary to pay part of the costs of the Project, as specified in Section 2 of this ordinance, the City shall issue and sell its subordinate lien water and sewer revenue bonds (the "Bonds") in the total principal amount of \$1,800,000, or such part thereof as may be found necessary, to carry out the Project. The Bonds shall be issued at such times and in such amounts as may be found necessary and shall bear interest and mature in various amounts in each year from one to not exceeding 30 years from date of issue to be determined by the Council. Both the principal of and interest on the Bonds shall be payable solely from the gross earnings and revenue of the System.

Section 4. Authorization of Notes. For the purpose of providing interim financing of the Project pending its completion and the issuance of the Bonds, the Council hereby authorizes the issuance and sale of its subordinate lien water and sewer revenue bond anticipation notes (the "Notes"). The Notes shall be designated as the "City of Gig Harbor, Washington, Subordinate Lien Water and Sewer Revenue Bond Anticipation Notes, 1992," shall be dated as of August 1, 1992, shall be issued in fully registered form in the denomination of \$5,000 or any integral multiple thereof, shall bear interest at a per annum rate of 4.25%, payable

on February 1, 1993 and each February 1 and August 1 thereafter and shall mature on August 1, 1994. Interest on the Notes shall be calculated on the basis of a 360-day year with 30-day months.

The Notes shall be an obligation only of the Note Fund and shall be payable and secured as provided herein. The Notes shall not be deemed to constitute a general obligation or a pledge of the faith and credit or taxing power of the City or the State of Washington.

The fiscal agencies of the State of Washington in the cities of Seattle, Washington, and New York, New York, shall act as registrar for the Notes (collectively, the "Note Registrar"). The Note Registrar shall maintain the Note Register.

To induce DTC to accept the Notes as eligible for deposit at DTC, the City shall execute and deliver the Letter of Representations. The Finance Director is hereby authorized to execute the Letter of Representations with such changes as may hereafter be approved by the Finance Director, and such approval shall be conclusively presumed by the Finance Director's execution thereof. The Notes initially issued shall be held in fully immobilized form by DTC acting as depository pursuant to the terms and conditions set forth in Exhibit A attached hereto; shall be issued in denominations equal to the aggregate principal amount thereof and initially shall be registered in the name of Cede & Co., as the nominee of DTC.

Neither the City nor the Note Registrar will have any responsibility or obligation to DTC participants or the persons for whom they act as nominees with respect to the Notes in respect of the accuracy of any records maintained by DTC or any DTC participant, the payment by DTC or any DTC participant of any amount in respect of the principal or redemption price of or interest on the Notes, any notice which is permitted or required to be given to Registered Owners under this ordinance (except such notices as shall be required to be given by the City to the Note Registrar or to DTC), the selection by DTC or any DTC participant of any person to receive payment in the event of a partial redemption of the Notes or any consent given or other action taken by DTC as the Registered Owner. For so long as any Notes are held in fully immobilized form hereunder, DTC or its successor depository shall be deemed to be the Registered Owner for all purposes hereunder, and all references herein to the Registered Owners shall mean DTC or its nominee and shall not mean the owners of any beneficial interest in the Notes.

If any Note shall be duly presented for payment and funds have not been duly provided by the City on such applicable date, then interest shall continue to accrue thereafter on the unpaid principal thereof at the rate stated on such Note until it is paid.

The Notes shall be registered initially as a single note in the name of "Cede & Co.," as nominee of DTC in a denomination corresponding to the total principal therein designated to mature on August 1, 1994. Registered ownership of such immobilized Notes,

or any portions thereof, may not thereafter be transferred except (i) to any successor of DTC or its nominee, provided that any such successor shall be qualified under any applicable laws to provide the service proposed to be provided by it; (ii) to any substitute depository appointed by the Council pursuant to subsection (2) below or such substitute depository's successor; or (iii) to any person as provided in the second paragraph below.

Upon the resignation of DTC or its successor (or any substitute depository or its successor) from its functions as depository or a determination by the City Council that it is no longer in the best interests of owners of beneficial interests of the Notes to continue the system of book entry transfers through DTC or its successor (or any substitute depository or its successor), the Council may hereafter appoint a substitute depository. Any such substitute depository shall be qualified under any applicable laws to provided the services proposed to be provided by it.

In the case of any transfer pursuant to clause (i) or (ii) above, the Note Registrar shall, upon receipt of the Note, together with a written request on behalf of the Council, issue a single new Note registered in the name of such successor or such substitute depository, or their nominees, as the case may be, all as specified in such written request of the Council.

In the event that (i) DTC or its successor (or substitute depository or its successor) resigns from its functions as

depository, and no substitute depository can be obtained, or (ii) the Council determines that it is in the best interest of the beneficial owners of the Notes that they be able to obtain Note certificates, the ownership of Notes may then be transferred to any person or entity as herein provided, and the Notes shall no longer be held in fully immobilized form. The Council shall deliver a written request to the Note Registrar, together with a supply of definitive Notes, to issue Notes as herein provided in any authorized denomination. Upon receipt of all then outstanding Notes by the Note Registrar together with a written request on behalf of the Council to the Note Registrar, new Notes shall be issued in such denominations and registered in the names of such persons as are requested in such written request.

The City and the Note Registrar shall be entitled to treat the person in whose name any Note is registered as the absolute owner thereof for all purposes of this ordinance and any applicable laws, notwithstanding any notice to the contrary received by the Note Registrar or the City. Neither the City nor the Note Registrar will have any responsibility or obligations, legal or otherwise, to any other party including DTC or its successor (or substitute depository or its successor), except for the Registered Owners of the Notes.

Section 5. Place and Medium of Payment. Both principal of and interest on the Notes shall be payable in lawful money of the United States of America. For so long as all Notes are in fully

immobilized form, payments of principal and interest thereon shall be made as provided in the Letter of Representations.

In the event that the Notes are no longer in fully immobilized form, interest on the Notes shall be paid by check or draft mailed on the date such interest is due to the registered owners or nominees of such owners at the addresses appearing on the Note Register as of the 15th day of the month preceding the interest payment date. The principal of the Notes shall be payable upon presentation and surrender of the Notes by the registered owners or nominees of such owners at the principal offices of either of the fiscal agencies of the State of Washington in the cities of Seattle, Washington, or New York, New York, at the option of such owners.

Upon the surrender thereof to the Note Registrar, the Notes are interchangeable for other Notes of any authorized denomination in an equal aggregate principal amount and of the same interest rate and maturity date. Notes may be transferred only if endorsed in the manner provided thereon and surrendered to the Note Registrar. Such exchange or transfer shall be without cost to the owner or transferee. The Note Registrar shall not be required to register, transfer or exchange any Notes which have been called for redemption within a period of 15 days next preceding the date fixed for redemption.

The Notes shall be obligations only of the Note Fund and shall be payable and secured as provided herein. The Notes shall not be general obligations of the City.

The City hereby specifies and adopts the system of registration for the Notes approved by the Washington State Finance Committee. The Note Registrar shall keep, or cause to be kept, at its principal corporate trust office, sufficient books for the registration and transfer of the Notes which shall at all times be open to inspection by the City. The Note Registrar is authorized, on behalf of the City, to authenticate and deliver Notes transferred or exchanged in accordance with the provisions of such Notes and this ordinance and to carry out all of the Note Registrar's powers and duties under this ordinance.

The Note Registrar shall be responsible for its representations contained in the Certificate of Authentication on the Notes. The Note Registrar may become the owner of Notes with the same rights it would have if it were not the Note Registrar, and to the extent permitted by law, may act as depository for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of the owners of the Notes.

Section 6. Prior Redemption. The Notes are redeemable prior to their stated maturity on August 1, 1993 and on the first day of each month thereafter at a price of par plus accrued interest to the date of redemption.

For so long as all Notes are in fully immobilized form, notice of redemption shall be given as provided in the Letter of Representations. Thereafter, unless waived by any owner of Notes to be redeemed, official notice of any such redemption shall be given by the Note Registrar on behalf of the City by mailing a copy of an official redemption notice by first class mail, postage prepaid, at least 30 days and not more than 60 days prior to the date fixed for redemption to the registered owner(s) of the Note or Notes to be redeemed at the address shown on the Note Register or at such other address as is furnished in writing by such registered owner to the Note Registrar.

All official notices of redemption shall be dated and shall state:

- (1) the redemption date,
- (2) the redemption price,
- (3) if less than all outstanding Notes are to be redeemed, the identification (and, in the case of partial redemption, the respective principal amounts) of the Notes to be redeemed,
- (4) that on the redemption date the redemption price will become due and payable upon each such Note or portion thereof called for redemption, and that interest thereon shall cease to accrue from and after said date, and

(5) the place where such Notes are to be surrendered for payment of the redemption price, which place of payment shall be the principal office of the Note Registrar.

On or prior to any redemption date, the City shall deposit with the Note Registrar an amount of money sufficient to pay the redemption price of all or portions of Notes which are to be redeemed on that date. The requirements of this section shall be deemed to be complied with when notice is mailed as provided, whether or not it is actually received by the owner of any Note.

Official notice of redemption having been given as aforesaid, the Notes or portions of Notes to be redeemed shall, on the redemption date, become due and payable at the redemption price therein specified, and from and after such date (unless the City shall default in the payment of the redemption price) such Notes or portions of Notes shall cease to bear interest. Upon surrender of such Notes for redemption in accordance with said notice, such Notes shall be paid by the Note Registrar at the redemption price. Installments of interest due on or prior to the redemption date shall be payable as herein provided for payment of interest. All Notes which have been redeemed shall be cancelled and destroyed by the Note Registrar and shall not be reissued.

In addition to the foregoing notice, further notice shall be given by the Note Registrar on behalf of the City as set forth below, but no defect in said further notice nor any failure to give all or any portion of such further notice shall in any manner

defeat the effectiveness of a call for redemption if notice thereof is given as above described.

(1) Each further notice of redemption given hereunder shall contain the information required above for an official notice of redemption plus (i) the CUSIP numbers, if any, of all Notes being redeemed; (ii) the date of issue of the Notes as originally issued; (iii) the rate of interest borne by each Note being redeemed; (iv) the maturity date of each Note being redeemed; and (v) any other descriptive information needed to identify accurately the Notes being redeemed.

(2) Each further notice of redemption may be sent at least 35 days before the redemption date by registered or certified mail or overnight delivery service to all registered securities depositories then in the business of holding substantial amounts of obligations of types comprising the Notes and shall be sent to Moody's Investors Service and Standard & Poor's Corporation at their respective offices in New York, New York and to one or more national information services that disseminate notices of redemption of obligations such as the Notes.

(4) Upon the payment of the redemption price of Notes being redeemed, each check or other transfer of funds issued for such purpose shall bear the CUSIP number (if any) identifying, by issue and maturity, the Notes being redeemed with the proceeds of such check or other transfer.

Section 7. Note Fund--Security and Sources of Payment of Notes. There is hereby authorized to be established and the Treasurer of the City is authorized and requested to establish a special fund of the City to be known as the "Subordinate Lien Water and Sewer Revenue Bond Anticipation Note Fund, 1992" (the "Note Fund"), which fund shall be a trust fund and shall be drawn upon only for the payment of the principal of and interest on the Notes. The City hereby covenants and agrees that on or before each date on which a payment of interest on or principal of and interest on the Notes is due, it will deposit in the Note Fund proceeds of the Bonds, Assessments, moneys from other sources, other than tax revenues (limited to earnings and revenue of the System), or from the proceeds of additional water and sewer revenue bond anticipation notes, in an amount sufficient to pay the principal of and interest on the Notes as the same become due.

In order to secure the payments when due of the principal of and interest on the Notes and the performance of any other obligation of the City to the registered owners of the Notes, the City hereby pledges to such payment and performance all amounts from time to time on deposit in the Note Fund.

Section 8. Execution and Delivery of Notes. The Notes shall be executed on behalf of the City by the manual or facsimile signature of the Mayor of the City and attested by the manual or facsimile signature of the City Clerk. The official seal of the City shall be impressed or a facsimile thereof imprinted on each

Note. In case any officer whose signature shall appear on any Note shall cease to be an officer before the delivery of such Note, such signature shall nevertheless be valid and sufficient for all purposes, and such Note may be authenticated and delivered the same as if such officer had remained in office until such delivery.

Only such Notes as shall bear thereon a Certificate of Authentication in the form hereinafter specified in Section 18, manually executed by the Note Registrar, shall be valid or obligatory for any purpose or entitled to the benefits of this ordinance. Such Certificate of Authentication shall be conclusive evidence that the Notes so authenticated have been duly executed, authenticated and delivered hereunder and are entitled to the benefits of this ordinance.

Section 9. Sale of the Notes. The City hereby accepts the offer of Dain Bosworth Incorporated, Seattle, Washington, dated August 10, 1992 to purchase the Notes in accordance with the terms contained in this ordinance and said offer. The City officials are hereby authorized and directed to do everything necessary to complete such sale and delivery of the Notes to the purchaser thereof upon the payment of the purchase price thereof, all in accordance with this ordinance and the offer of Dain Bosworth Incorporated. The City Administrator and Finance Director are hereby authorized to review and approve on behalf of the City the preliminary and final Official Statements and to execute a certificate evidencing compliance with Securities and Exchange

Commission Rule 15c2-12 relative to the Notes with such additions and changes as may be deemed necessary or advisable to them. The preliminary Official Statement for the Notes is hereby deemed final within the meaning of SEC Rule 15c2-12. The proper City officials are hereby authorized and directed to do everything necessary for the prompt execution and delivery of the Notes to said purchaser and for the proper application and use of the proceeds of sale thereof.

Section 10. Application of Note Proceeds. There is hereby authorized to be created a special fund of the City to be designated as the "Utility Local Improvement District No. 3 Fund" (the "ULID No. 3 Fund"). The proceeds of sale of the Notes shall be deposited in the ULID No. 3 Fund and shall be used, together with other moneys on deposit therein and available therefor, for the undertaking of the Project and for paying all expenses incidental thereto (including but not limited to costs of issuance of the Notes, engineering, financing, legal or any other incidental costs) and for repaying any advances heretofore or hereafter made on account of such costs or for redeeming the Notes. All moneys held in the ULID No. 3 Fund may be invested in any legal investment for the City's funds as provided in written instructions delivered by the City to the Finance Director, and all investments shall be scheduled to mature as costs of the Project are reasonably anticipated to be incurred. Interest earned and income or profits derived by virtue of investments of moneys in the ULID No. 3 Fund

may remain in the ULID No. 3 Fund and may be used for the payment of Project costs. Upon the completion of the Project and the payment of all costs thereof, including the payment of all retainages for construction, the balance on hand in the ULID No. 3 Fund shall be transferred to the Note Fund, and the ULID No. 3 Fund shall be closed.

Section 11. Defeasance. In the event that money and/or "Government Obligations," as such term is now or may hereafter be defined in Ch. 39.53 RCW, maturing at such time or times and bearing interest to be earned thereon in amounts sufficient to redeem and retire the Notes in accordance with their terms are set aside in a special account to effect such redemption or retirement and such money and the principal of and interest on such obligations are irrevocably set aside and pledged for such purpose, then no further payments need be made into the Note Fund for the payment of the principal of and interest on the Notes so provided for and such Notes shall cease to be entitled to any lien, benefit or security of this ordinance except the right to receive the funds so set aside and pledged, and such Notes shall be deemed not to be outstanding hereunder.

Section 12. Lost, Destroyed or Mutilated Notes. In the event any Note is lost, destroyed, or mutilated, the City will cause to be issued a new Note, substantially similar to the original, to replace the same, in such manner and upon such reasonable terms and conditions as the Note Registrar may from time to time determine.

Section 13. Representations and Warranties. The City hereby makes the following representations, warranties and agreements.

(a) The City has full legal right, power and authority (i) to pass this ordinance, (ii) to sell, issue and deliver the Notes as provided herein and (iii) to carry out and consummate all other transactions contemplated by this ordinance.

(b) By all necessary official action prior to or concurrently herewith, the City has duly authorized and approved the execution and delivery of, and the performance by the City of its obligations contained in the Notes and this ordinance and the consummation by it of all other transactions contemplated by this ordinance in connection with the issuance of the Notes, and such authorizations and approvals are in full force and effect and have not been amended, modified or supplemented in any material respect.

(c) This ordinance constitutes the legal, valid and binding obligation of the City.

(d) The Notes, when issued, authenticated and delivered, will constitute the legal, valid and binding obligations of the City, in accordance with their terms.

(e) The City is not in breach of or default under any applicable judgment or decree or any loan agreement, ordinance, bond, note, ordinance, agreement or other instrument to which the City is a party or to which the City or any of its property or assets is otherwise subject where such breach or default would have a material adverse effect on the operations or financial condition

of the City; and (i) the passage of this ordinance, and (ii) the sale, issuance and delivery of the Notes, and compliance with the provisions on the City's part contained therein, will not conflict with or constitute a breach of or default under any constitutional provision, law, administrative regulation, judgment, decree, loan agreement, indenture, bond, note, ordinance, agreement or other instrument to which the City is a party or to which the City or any of its property or assets is otherwise subject, nor will any such adoption, execution, delivery, sale, issuance or compliance result in the creation or imposition of any lien, charge or other security interest or encumbrance of any nature whatsoever upon any of the property or assets of the City or under the terms of any such law, regulation or instrument, except as provided by the Notes and this ordinance.

Section 14. Priority of Payments from Revenue Fund. There has heretofore been established in the office of the City Administrator a special fund of the City known as the "City of Gig Harbor Utility Revenue Fund" (the "Revenue Fund"), as collected. The Revenue Fund shall be held separate and apart from all other funds and accounts of the City, the Revenue of the System shall be used only for the following purposes and in the following order of priority:

First, to pay the Costs of Maintenance and Operation of the System;

Second, to make all payments required to be made into the Bond Fund to pay the interest on any Parity Bonds;

Third, to make all payments required to be made into the Bond Fund to pay the maturing principal of any Parity Bonds;

Fourth, to make all payments required to be made into the Reserve Account created to secure the payment of the Parity Bonds;

Fifth, to make all payments required to be made into any revenue bond redemption fund or revenue warrant redemption fund and debt service account or reserve account created to pay and secure the payment of the principal of and interest on any revenue bonds or revenue warrants of the City having a lien upon the Revenue of the System junior and inferior to the lien thereon for the payment of the principal of and interest on the Parity Bonds; and

Sixth, to retire by redemption or purchase in the open market any outstanding revenue bonds or revenue warrants of the City, to make necessary additions, betterments and improvements and repairs to or extensions and replacements of the System, or for any other lawful City purposes.

Section 15. Covenants of the City. The City hereby makes the following covenants with the owners of the Notes.

(a) Punctual Payment of Notes. The City covenants that amounts on deposit in the Note Fund shall be drawn upon solely for the purpose of paying the principal of and interest on the Notes. The City further covenants that it will duly and punctually pay or

cause to be paid the principal of and interest on every Note at the place or places, on the date or dates and in the manner provided in the Notes and herein. The City further covenants and agrees that it will deposit moneys from the sources herein provided or issue refunding water and sewer bond anticipation notes in such amount and at such time as will enable it to make the deposits into the Note Fund required by Section 7 of this ordinance.

The City's covenant to pay the principal of and interest on the Notes is hereby declared to constitute a lien and charge upon the moneys pledged hereunder and the available moneys in the Revenue Fund and the ULID No. 3 Fund. The lien and charge upon available moneys in the Revenue Fund for the payment of the principal of and interest on the Notes shall be prior and superior to all other liens and charges except for the payments described in paragraphs First through Third of Section 14 hereof. Nothing contained herein shall be construed as preventing or hindering the Council from authorizing disbursements from the Revenue Fund in accordance with ordinances which authorized the issuance of the Outstanding Parity Bonds.

The lien and charge on the Note proceeds in the ULID No. 3 Fund shall be prior and superior to all other liens and charges, and no moneys or investments shall be transferred out of such fund into the Revenue Fund or the Bond Fund or applied for any purpose other than as specified in Section 14 hereof unless and until the Project has been completed and the Notes have been paid in full.

Except as otherwise provided in this ordinance, the principal of and interest on the Notes are payable solely from the funds pledged therefor by this ordinance, and nothing in the Notes or in this ordinance shall be construed as obligating or pledging the faith and credit or taxing power of the State of Washington or the City.

(b) Notes to Remain Tax Exempt; Nonarbitrage Covenant. The City covenants that it will not take or permit to be taken on its behalf any action that would adversely affect the exemption from federal income taxation of the interest on the Notes and will take or require to be taken such acts as may reasonably be within its ability and as may from time to time be required under applicable law to continue the exemption from federal income taxation of the interest on the Notes. Without limiting the generality of the foregoing, the City covenants that it will not take any action or fail to take any action with respect to the investment of the proceeds of any Notes or other funds that would result in constituting the Notes "arbitrage bonds" within the meaning of such term as used in Section 148 of the Internal Revenue Code of 1986, as amended (the "Code").

The City represents that it has not been notified of any listing or proposed listing by the Internal Revenue Service to the effect that it is a bond issuer whose arbitrage certifications may not be relied upon.

(c) Use of Note Proceeds; Restrictions on Amendments. The City covenants that none of the proceeds of the Notes will be used for any purpose other than as provided in this ordinance and that the City shall not suffer any amendment or supplement to this ordinance, or any departure from the due performance of the obligations of the City hereunder, that might materially and adversely affect the rights of the owners from time to time of the Notes.

(d) Application of Bond Proceeds. The City covenants that the proceeds of sale of the Bonds shall be applied first to the deposit into the Note Fund to be used, together with other moneys therein and Assessments, to pay the principal of and interest on the Notes.

(e) Maintenance of System. The City shall at all times maintain, preserve and keep the properties of the System in good repair, working order and condition and will from time to time make all necessary and proper repairs, renewals, replacements, extensions and betterments thereto, so that at all times the business carried on in connection therewith will be properly and advantageously conducted and said properties of the System and the business in connection therewith administered in an efficient manner and at a reasonable cost.

(f) No Free Service. The City will not furnish or supply or permit the furnishing or supplying of any commodity, service or facility furnished by or in connection with the operation of the

System, free of charge to any person, firm or corporation, public or private, so long as any Notes are outstanding and unpaid.

(g) Enforcement of Collection of Service Charges. The City shall promptly take action to enforce the payment of delinquent service charges by such means as are legally available.

Section 16. Future Parity Bonds and Bonds or Short-Term Obligations Junior to Notes. The City specifically reserves the right to issue Future Parity Bonds and also to issue obligations with a lien upon gross earnings and revenue of the System junior to the lien of the Notes.

Section 17. Due Regard for Costs of Operation and Maintenance. The Council hereby declares that, in creating the Note Fund, it has exercised due regard for the ordinary and necessary expenses of operation and maintenance of the System and the portion of the revenues of the System previously pledged for the payment of the Outstanding Parity Bonds, and has not obligated the City to set aside, pay into and maintain in said fund a greater amount of the revenues of the System than in its judgment will be available over and above such necessary expenses of operation and maintenance.

Section 18. Form of Notes and Certificate of Authentication. The Notes shall be in substantially the following form:

UNITED STATES OF AMERICA

\$ _____

No. _____

STATE OF WASHINGTON

CITY OF GIG HARBOR

SUBORDINATE LIEN WATER AND SEWER REVENUE BOND
ANTICIPATION NOTE, 1992

INTEREST RATE:

MATURITY DATE:

REGISTERED OWNER:

PRINCIPAL AMOUNT:

The City of Gig Harbor, Washington, a municipal corporation of the State of Washington (the "City"), hereby acknowledges itself to owe and for value received promises to pay, but solely from the Note Fund (hereinafter defined), to the Registered Owner identified above, or registered assigns, on the Maturity Date the Principal Amount specified above and to pay interest thereon from August 1, 1992, or the most recent date to which interest has been paid or duly provided for until payment of this note, at the rate of 4.25% per annum, payable on February 1, 1993 and on each February 1 and August 1 thereafter for as long as this note remains outstanding. Both principal of and interest on this note are payable in lawful money of the United States of America. Interest shall be paid by mailing a check or draft to the registered owner or assigns at the address shown on the Note Register as of the 15th day of the month prior to the interest payment date. Principal shall be paid to the registered owner or assigns upon presentation and surrender of this Note at the principal office of either of the fiscal agencies of the State of Washington in the cities of Seattle, Washington, and New York, New York (collectively the "Note Registrar"). Interest shall be calculated on the basis of a year of 360 days and twelve 30-day months. Both principal of and interest on this note are payable solely out the special fund of the City known as the "Subordinate Lien Water and Sewer Revenue Bond Anticipation Note Fund, 1992" (the "Note Fund") as provided by Ordinance No. 633 of the City (the "Note Ordinance"). The definitions contained in the Note Ordinance shall apply to capitalized terms contained herein.

This note is one of an authorized issue of notes of like date and tenor, except as to number and amount, in the aggregate principal amount of \$1,800,000. The notes of this issue are issued under and in accordance with the provisions of the Constitution and applicable statutes of the State of Washington and the Note Ordinance for the purpose of paying part of the costs of industrial

sewer and water improvements to the combined water and sewer system of the City. The notes of this issue are issued in anticipation of the issuance of subordinate lien water and sewer revenue bonds authorized by the City to be issued.

This note is a special obligation of the City and is payable solely from the Note Fund of the City into which the City has covenanted and agreed to deposit the proceeds of water and sewer revenue bonds. The City has further covenanted to deposit money in the Note Fund from the proceeds of water and sewer revenue bonds and Assessments or from other sources, other than tax revenues (limited to earnings and revenue of the System), or from the proceeds of additional water and sewer revenue bond anticipation notes in amounts sufficient to pay when due the principal of and interest on any and all outstanding notes of this issue. The obligation to apply such funds shall constitute a lien and charge upon available moneys in the Revenue Fund as provided in the Note Ordinance.

The City has reserved the right to redeem any or all of the outstanding notes of this issue on August 1, 1993, or on the first day of any month thereafter, at a price of 100% of the principal amount thereof plus accrued interest to the date of redemption.

Notice of any such intended redemption shall be given not fewer than 30 nor more than 60 days prior to the redemption date by first class mail, postage prepaid, to the registered owner of any bond to be redeemed at the address appearing on the Note Register. The requirements of the Note Ordinance shall be deemed to be complied with when notice is mailed as herein provided, regardless of whether or not it is actually received by the owner of any note. Interest on all of such notes so called for redemption shall cease to accrue on the date fixed for redemption unless such note or notes so called for redemption are not redeemed upon presentation made pursuant to such call. The Note Registrar shall not be required to register, transfer or exchange any note called for redemption within 20 days next preceding the date fixed for such redemption.

Portions of the principal sum of this note in installments of \$5,000 or any integral multiple thereof may also be redeemed in accordance with the provisions set forth above, and if less than all of the principal sum hereof is to be redeemed, upon the surrender of this note at the principal office of the Note Registrar there shall be issued to the Registered Owner, without charge therefor, for the then unredeemed balance of the principal sum hereof, at the option of the Registered Owner, a note or notes of like maturity and interest rate in any of the denominations authorized by the Note Ordinance.

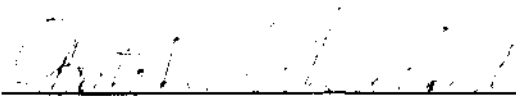
The City hereby irrevocably covenants and agrees with the Registered Owner of this note that it will keep and perform all the covenants of this note and of the Note Ordinance to be by it kept and performed. Reference is hereby made to the Note Ordinance for a complete statement of such covenants and for the definition of capitalized terms used herein.

This note shall not be valid or become obligatory for any purpose or be entitled to any security or benefit under the Note Ordinance until the Certificate of Authentication hereon shall have been manually signed by or on behalf of the Note Registrar.


It is hereby certified that all acts, conditions and things required by the Constitution and statutes of the State of Washington to exist, to have happened, been done and performed precedent to and in the issuance of this note have happened, been done and performed and that the issuance of this note and the notes of this series does not violate any constitutional, statutory or other limitation upon the amount of indebtedness that the City may incur.

IN WITNESS WHEREOF, City of Gig Harbor, Washington, has caused this note to be signed with the manual or facsimile signature of the Mayor and attested by the manual or facsimile signature of the City Clerk, and the seal of the City to be impressed or a facsimile thereof to be imprinted hereon, as of this 1st day of August, 1992.

CITY OF GIG HARBOR, WASHINGTON

By 
Mayor

ATTEST:


City Clerk

CERTIFICATE OF AUTHENTICATION

This note is one of the notes described in the within-mentioned Note Ordinance and is one of the Subordinate Lien Water

and Sewer Revenue Bond Anticipation Notes, 1992 of the City of Gig Harbor, Washington, dated August 1, 1992.

WASHINGTON STATE FISCAL AGENCY
Note Registrar

By _____
Authorized Signer

The following abbreviations, when used in the inscription on the face of the within note, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM - as tenants in common
TEN ENT - as tenants by the entireties
JT TEN - as joint tenants with
right of survivorship and
not as tenants in common

[illegible]

under Uniform Gifts (Transfers) to Minors
Act _____
(State)

Additional abbreviations may also be used though not in list above.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns
and transfers unto

PLEASE INSERT SOCIAL SECURITY OR TAXPAYER IDENTIFICATION NUMBER
OF TRANSFEREE / /

(Please print or typewrite name and address, including zip code, of Transferee)

the within note and does hereby irrevocably constitute and
appoint _____, attorney in

fact to transfer said note on the books kept for registration thereof with full power of substitution in the premises.

DATED: _____

SIGNATURE GUARANTEED: _____

NOTE: The signature on this Assignment must correspond with the name of the registered owner as it appears upon the face of the within note in every particular, without alteration or enlargement or any change whatever.

Section 19. Tax Designation. The City hereby designates the Notes as "qualified tax exempt obligations" for purchase by financial institutions pursuant to Section 265(b) of the Code. The City does not anticipate that it will issue more than \$10,000,000 in "qualified tax-exempt obligations" during the year 1992.

Section 20. General Authorization. The officials of the City are hereby authorized to do and perform from time to time any and all acts and things consistent with this ordinance necessary or appropriate to carry the same into effect.

Section 21. Effect of Partial Invalidity. In case any one or more of the provisions of this ordinance or of the Notes shall for any reason be held to be illegal or invalid, such illegality or invalidity shall not affect any other provision of this ordinance or of said Notes, but this ordinance and said Notes shall be construed and enforced as if such illegal or invalid provision had not been contained therein. In case any covenant, obligation or agreement contained in the Notes or in this ordinance shall for any

reason be held to be in violation of law, then such covenant, obligation or agreement shall be deemed to be the covenant, obligation or agreement of the City to the full extent permitted by law.

Section 22. Effect of Covenants, Etc. All covenants, obligations and agreements of the City contained in this ordinance shall be deemed to be covenants, obligations and agreements of the City to the full extent authorized by the Act and permitted by the Constitution of the State of Washington. No covenant, obligation or agreement contained herein shall be deemed to be a covenant, obligation or agreement of any present or future member, agent or employee of the City in his individual capacity, and neither the members of the Council nor any officer thereof executing the Notes shall be liable personally on the Notes or be subject to any personal liability or accountability by reason of the issuance thereof. No member, officer, agent or employee of the City shall incur any liability in acting or proceeding or in not acting or proceeding, in good faith in accordance with the terms of this ordinance.

Section 23. Ordinance to Constitute Contract. In consideration of the purchase and acceptance of any of the Notes authorized to be issued hereunder by those who shall hold the same from time to time, this ordinance shall be deemed to be and shall constitute a contract between the City and such owners, and the covenants and agreements set forth in this ordinance to be per-

formed on behalf of the City shall be for the equal benefit, protection and security of the owners of any and all of the Notes, all of which, regardless of the time or times of their delivery or maturity, shall be of equal rank without preference, priority or distinction of any of the Notes over any other thereof, except as expressly provided in or permitted by their terms with respect to rate of interest or otherwise.

Section 24. Effective Date. This ordinance shall be in full force and effect five days after its passage and publication in the manner required by law.

Read for the first time on July 27, 1992, passed by the Council of the City of Gig Harbor, Washington, at a regular meeting held on the 10th day of August, 1992.

CITY OF GIG HARBOR, WASHINGTON

By [Signature]
Mayor

ATTEST:

[Signature]
City Clerk

APPROVED AS TO FORM:

City Attorney

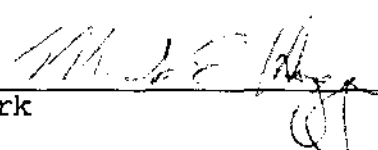
CERTIFICATE

I, the undersigned, the duly chosen, qualified and acting Clerk of the City of Gig Harbor, Washington (the "City"), and keeper of the records of the City Council (the "Council"), DO HEREBY CERTIFY:

1. That the attached Ordinance No. 633 (herein called the "Ordinance") is a true and correct copy of an ordinance of the City, as passed at a regular meeting of the Council held on the 10th day of August, 1992, and duly recorded in my office.

2. That said meeting was duly convened and held in all respects in accordance with law, and to the extent required by law, due and proper notice of such meeting was given; that a legal quorum was present throughout the meeting and a legally sufficient number of members of the Council voted in the proper manner for the passage of said ordinance; that all other requirements and proceedings incident to the proper passage of said ordinance have been duly fulfilled, carried out and otherwise observed, and that I am authorized to execute this certificate.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the City of Gig Harbor as of this ____ day of August, 1992.



Clerk

[CITY SEAL]